

A PRELIMINARY STUDY OF CONSUMERS'  
BANKING HABITS AND PAYMENT METHODS

by

Ho Yiu Hung, Ronald


何耀雄

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Dr Lauren Swanson  
Advisor

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## ABSTRACT

This study explores consumers' Easy Pay System (EPS), Automatic Teller Machine (ATM) card and credit card usage habits and the various factors affecting their usage. Information was collected on the preference of card types and opinions towards possible future card-related applications.

The survey was carried out by telephone interviews with 530 randomly selected individuals and 106 merchants, using structured questionnaires.

The findings suggest that, although the banks in Hong Kong are quite successful in selling the ATM services to their customers (61 percent of respondents owned ATM cards and 72 percent used automated teller machines at least once a month), the use of ATMs may not actually cut down the banks' operating costs. ATMs are, however, providing better services and alleviating the pressure on their counter tellers.

Consumers surveyed are still very much cash-minded, although there is a greater tendency to use non-cash payment methods as the ticket price increases. We



recommend promotion and education to merchants and consumers to create a better understanding on how modern payment methods can benefit them. For instance, promotion to consumers should emphasize the convenience of using "plastic" - it saves them a trip to the bank and is especially useful in settling big amounts. Promotion to merchants should reinforce the concept that the 'plastic' simplifies payment procedures, cuts down operating costs and brings additional business.

For card-issuing companies, there is still a lot of market potential in Hong Kong as the figures show that the credit/debit card market is far from saturated. Seven hundred thousand people have and use credit cards in a population of 5.6 million people.

Although the VISA credit card is the most popular at present, it is not seen to be providing as high a standard of service as American Express. This could mean that VISA is winning on numbers of users but losing on cardholder spendings and loyalty.

From the responses, the age of the Smart/Chip card is still very far away. Cardholders are confused about the draft capture terminal and use of personal secret numbers. The cardholders' worries must be properly addressed and an education process planned to overcome those obstacles.



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## CHAPTER I

### INTRODUCTION

In Hong Kong, which is a predominantly Chinese society, consumers traditionally use cash when buying merchandise. However, with the modernization and internationalization of the city, other methods of payment like cheques, credit cards, charge cards and electronic fund transfer at the point-of-sale (EFTPOS) have sprung up and they are becoming more and more popular. However, there are still a lot of people who reject the use of 'plastic'.

People who favour credit cards find them easy to operate, its use gives them some grace period before settlement is required, and it eliminates the need to carry a lot of cash. The retailers like the 'plastic' too because they feel it helps generate more business and there is less cash-handling risk. The ones who issue the



'plastic', that is, the banks and the card companies are certainly making good revenue from the card operations and are trying their best to promote the use of cards.

However, with respect to spending, different people have different viewpoints. Some would like to have as long a credit period as possible such that they can enjoy the goods/services now but pay later. Others fear credit will create unnecessary spending and decide that they should instead settle the bills immediately by using cash. And, once the cash is gone they will stop spending.

Among merchants, the bigger ones have generally accepted the 'plastic' but not the small retailers who are still very cash-minded. The main concern of small merchants appears to be the perceived higher costs involved in accepting cards, rather than the increased convenience of their use or the prospect of generating more business by accepting cards.

At present there are about 700,000 credit cards and 2.5 million ATM cards in circulation in Hong Kong. With a population of well over 4.5 million people (age 15 or above), there is still much room for expansion.



## CHAPTER II

### SECONDARY DATA REVIEW

Credit cards and automated teller machine (ATM) cards were introduced into Hong Kong respectively in the late nineteen-seventies and early nineteen-eighties. Easy Pay System (EPS), which is an electronic fund transfer payment system at the point-of-sale, was launched later in 1985.

There have been a number of market surveys done over the years, which can serve as background reference material for the present study.

In the 1985 Survey Research Hong Kong (SRH) report, the relationship between ATM card ownership and such factors as age, sex, occupation, income level, and education was tabulated. It was shown that only 19 percent of the total sample possessed ATM cards. Out of these cardholders, 90 percent aged below 40 while the mode (30%)

aged from 20 to 24. With regard to sex, 64 percent of all cardholders were male. Besides, only 24 percent and 15 percent respectively of all male and female respondents held cards.

The 1985 SRH survey also showed that most cardholders were blue collar workers (41%), followed by white collars (29%) and housewives (15%). Their monthly personal income ranged from under \$2,000 (9%) to over \$15,000 (2%), with the mode earning between \$2,000 and \$4,999 (51%). The majority of the cardholders completed their secondary education (38%); 24 percent received some form of secondary education and 21 percent had post-secondary or university education.

However, a similar study conducted by Frank Small & Associates (FSA) in 1987 illustrated that the cardholder base had grown significantly since 1985 and up to 56% of the sample respondents possessed ATM cards. The report went on to show that in general cash was the most preferred form of payment because it was simple and convenient. Yet with the increase in ticket price, more and more people would try to make use of other payment methods like credit card and EPS. The study also revealed that 13 percent of the respondents had used EPS before and the majority of the EPS usage occurred in department stores (46%), boutiques (11%) and the Mass Transit Railway (10%).



Frank Small & Associates also interviewed merchant outlets to find that 72 percent of these outlets accepted credit cards. For those which did not take cards, the major reasons quoted were 'no need' (28%), 'cumbersome operation procedure' (27%) and 'have to pay charges' (25%). This part of the survey covered a wide range of merchant outlets ranging from boutiques, jewellery shop, furniture, Chinese herb to automobile companies.

Another survey done in 1988 by Retail Banking Connection reported that 54 percent of their sample respondents owned cards. Eighty six percent of these cardholders aged below 40 and most of them were male (61%). They were mainly blue collar workers (45%), earning between \$3,000 and \$5,999 (50%) and completed secondary education or above (60%). This survey also showed that 21 percent of the respondents owned credit cards, with VISA cards being most popular (53%) followed by American Express (24%) and Master Cards (13%).

Results of the three surveys mentioned earlier indicated that the awareness, ownership, and usage of plastic cards are all growing steadily. Nevertheless, the profile of the cardholders was still male-biased, mainly blue collars earning between \$3,000 and \$5,999 and having completed secondary education.



## CHAPTER III

### RESEARCH STRATEGY AND METHOD

#### Research Objectives

The various factors influencing consumer payment behaviour and merchant acceptance of credit cards will be studied. Specifically, consumer banking habits, the acceptance of 'plastic' by consumers and their pattern of payment, merchant attitudes regarding credit cards, and new services created by the issuers will be studied.

These factors are all inter-related and will be studied in order to obtain a broad picture of credit card usage. First, consumers must be willing to try 'plastic', and then there must be a big enough, established network where the consumers can use the cards. In order to increase the card base and the business at merchant outlets, the card companies have to provide good services and introduce new facilities.

## Method

### Consumer Research

The research was carried out in the form of telephone interviews using a structured questionnaire. (See Appendix A).

At the beginning of the study, ten persons of different backgrounds were invited to take part in a group discussion on general banking and payment practice/preference. The results of this discussion were used to formulate a preliminary set of questions which were used to interview another ten people, of varying backgrounds as a 'piloting' exercise. From their feedback, some of the questions and/or the answers were amended to arrive at the final questionnaire.

A random sample of 2,000 respondents was then drawn from the telephone books. I made use of the August 1988 version of the residential telephone directories for Hong Kong Island, Kowloon Peninsular and the New Territories. The last telephone number in the third column of every page which had its page number equal to multiples of five were selected. We have limited the age of the respondents to



all those 15 and over. In order to avoid any biased opinion, we have also rejected those who are working in banking institutions and card companies. Eight part-time interviewers were properly trained and employed to perform the telephone interviews during the periods 6 March to 15 March, 1989 and 12 June to 21 June 1989. The interviewers were instructed to perform the screening just mentioned above. As a result, 530 out of a total of 2,000 interviews were completed successfully.

#### Merchant Research

The research was also carried out in the form of telephone interviews using a structured questionnaire. (See Appendix C)

A preliminary set of questions were used for a 'piloting' exercise with ten randomly selected merchants. Some of the possible answers were added as a result.

A random sample of 500 was then drawn from a list of Hong Kong Bank customers. Every tenth customers was selected as the potential respondent. Five part-time interviewers were trained and employed to do the interviews during the period 15 June to 30 June 1989. At the end of the exercise, we successfully interviewed 106 merchants.



# CHAPTER IV

## FINDINGS

### Consumer Research

#### Overview of Sample

All the respondents were aged over 15.

Age	Male	Female
15 - 19	20	12
20 - 24	69	71
25 - 29	56	54
30 - 34	60	52
35 - 39	31	32
40 - 44	20	21
45 or above	15	17

Most of the respondents were factory workers or blue collars (32%). The second largest group was the white collars (24%), followed by housewife (14%), professional/managerial/employer (10%) and student (10%). These five categories accounted for 90 percent of the total sample population.

Their level of education ranged from the low end (primary or below) of 16 percent to the high end (post-secondary/university or above) of 18 percent, with the mode having upper secondary education (35%).

Although 37 percent of the respondents refused to disclose their monthly personal income, the rest provided detailed figures. They ranged from the 'below HK\$3,000' end (5%) to the high 'HK\$10,000 or above' end (7%). The majority of the respondent were earning between HK\$3,000 and HK\$5,999 (35%). (Note: Appendix B - Tables 1-28 correspond to questions 1-28 of the telephone questionnaire.)

(Table 24, 25, 26, 27, 28)

### Banking Habits

Ninety three percent of the respondents carried less than HK\$1,000 in their pockets, and a small percentage (2%)



said how much they carried depended upon the occasion/need. Most respondents had between HK\$200 to HK\$500 with them (45%).

(Table 3)

Seventy two percent of the sample revealed that they used the automated teller machines (ATM) at least once a month while 7 percent said they had never used one before.

(Table 8)

When the respondents drew cash from the teller in the bank, 24 percent would get more than HK\$2,000, with the majority drawing between HK\$200 to HK\$2,000 (52%).

(Table 15)

Most respondents visited their bank branches once or twice a month (51%) and again a smaller percentage (13%) said that it depended on the occasion.

(Table 13)

The respondents visited their bank branches mainly for drawing cash (38%), depositing money into accounts (30%) and updating their passbook (19%).

(Table 14)

When they got cash from the automated teller machines, only two percent would draw more than HK\$2,000, with most people getting between HK\$100 to HK\$500 (51%).

(Table 9)

## Payment Habits

Our sample indicated that they were still very much cash-oriented. Ninety one percent of all the respondents usually paid by cash while another 8 percent used credit cards in their shopping.

(Table 4)

When asked of their actual preference, more people said that they preferred to use credit cards (12%) although the percentage was still small compared with those choosing cash (87%) !

(Table 5)

No matter what type of payment method they preferred, the reason they said they preferred it was mainly 'convenience' (61%).

(Table 6)

The majority of the respondents thought that the retailers preferred to receive cash (73%), while others said the retailers did not care how you paid (15%) so long as you made a purchase.

(Table 16)

However, as the ticket price increased, it was evident that more and more people turned from using cash to credit cards and other payment methods. The percentage of those



using cash dropped from 99 percent, to 86 percent, to 68 percent and lastly to 61 percent with the increase in ticket price. Although the percentage is relatively small, EPS appeared in all three higher ranges. For ticket price over HK\$1,000, credit cards would be used by 27 percent of the sample.

(Table 7)

When asked of EPS, about one-third (33%) did recognise that it was a payment system while the others thought it was a kind of ATM card (23%) or they did not know what it stood for (24%).

(Table 10)

Twenty four percent of all the respondents had used EPS before and they used it most frequently in department stores (41%).

(Table 11 and 12)

#### Card Ownership/Preference

There were many more people holding ATM cards than credit cards. Sixty one percent of all those interviewed possessed ATM cards while the corresponding figure for credit cards was only 28 percent.

(Table 1)

For those who did not possess any ATM/credit cards, the major reason was that they thought there was no need to carry the cards (50%).

(Table 2)

There were marked differences in the profile of the three groups of respondents - credit cardholders, ATM cardholders and those without any type of card (see the next page). I did not try to establish a fourth group - those with both ATM and credit card since, with only two exceptions, all the credit cardholders owned ATM cards as well.

In terms of occupation, the largest percentage of credit cardholders were 'white collar' (50%), while most ATM cardholders (58%) and non-cardholders (40%) are 'blue collar'.

Regarding their level of education, most credit cardholders (82%) received education at least up to upper secondary (F.4 to F.5). The corresponding figures for ATM cardholders and non-cardholders were 54 percent and 35 percent.

A large percentage of the credit cardholders (disregarding the 20 percent who refused to disclose) earned more than HK\$3,000 a month (78%). The corresponding figure for ATM cardholders and non-cardholders were only 31 percent and 45 percent. A large number of non-cardholders (49%) refused to disclose their income level.



## CARDHOLDER/NON-HOLDER PROFILES

<u>Total</u>	150	174	206
%	Credit Cardholder	ATM Cardholder	Without Any Card

Occupation

Professional/Managerial /Employer	28	6	8
White Collar	50	28	17
Blue Collar	20	58	40
Housewife	-	3	26
Student	2	3	9
Retired/Unemployed	-	3	-

Education

Primary or below	9	19	50
Lower secondary (F.1 - F.3)	9	27	15
Upper secondary (F.4 - F.5)	32	40	11
Matriculation	14	10	15
Post-Secondary	36	4	9

Monthly Personal Income

Below HK\$3,000	2	56	6
HK\$3,000 - HK\$5,999	30	31	33
HK\$6,000 - HK\$9,999	23	2	12
HK\$10,000 or above	25	1	-
Refused to disclose	20	10	49

Of the credit cardholders, most of them owned VISA (62%), followed by American Express (18%) and MasterCard (14%). Diners Club only accounted for 3 percent of the sample.

(Table 17)

For VISA and MasterCard cardholders, the majority chose the card(s) because it was 'widely accepted' (26%), 'many functions' (14%) and 'common'.

(Table 18)

For American Express cardholders, the card was chosen because of 'widely accepted' (20%), 'many functions' (11%) and 'global assistance' (11%). Only 2 percent of the respondents quoted 'common'.

(Table 19)

### Future Applications

Chip card/Smart card is a new type of multi-purpose card. The card is powerful because it makes use of an integrated circuit chip to store a lot of customer information inside the 'plastic'.

Very few people had heard of 'chip/smart card' before (13%), and out of those, only 4 percent could correctly point out the nature of the card.

(Table 20 and 21)



Draft/data capture terminal is a type of point-of-sale terminal that can be used to capture customer details and transaction records. The information can then be sent to the banks/card companies electronically for authentication and record purposes.

When asked of their opinion on switching to a personal, secret number rather than a signature when using their credit cards, nearly half of the respondents (45%) supported the idea while 41 percent said 'no' and another 9 percent had not made up their mind.

(Table 22)

Out of those who said 'no' to using a personal secret number, 33 percent lack confidence, 23 percent thought they would easily forget the number and 16 percent said the practice was less secure.

(Table 23)

### Merchant Research

Most of the merchants (74%) we interviewed accepted credit cards and these merchants covered a wide range of business.

(Table 29 and Table 36)

For those who did not accept credit cards, the reasons they quoted were mainly their unwillingness to pay any commission (28%), that they considered the commission rate too high (26%) and that their profit margin was small (23%).

(Table 30)

For those who did accept credit cards, VISA (31%) and Master Cards (31%) were most popular, followed by American Express (15%) and Diners Club (9%).

(Table 31)

When asked why they accepted the cards they were accepting, the main reasons were 'popular' (44%), 'to get more business' (22%) and 'lower commission rate' (18%).

On the contrary, they did not take the other cards because of 'high commission rate' (40%), 'not popular' (32%) and 'no need' (19%).

(Table 32)



Fifty three percent of the merchants indicated that they would encourage other merchants to accept credit card while the rest (47%) said they would not. Most merchants who said 'no' considered that it was not their responsibility to promote credit cards.

(Table 33)

'Forged/counterfeit card' (30%) was the most serious problem merchants quoted in accepting credit cards, followed by 'high commission rate' (17%), long wait for bank to credit funds (14%), checking the bad list (13%) and phone for authorization code (13%).

(Table 34)

Accordingly, merchants wanted card companies to improve their services by lowering the commission rate (34%), effecting prompt payment (26%) and providing authorization terminal (19%).

The merchants also suggested to increase the credit limit of individual cardholders (30%), to arrange lucky draw/promotion (29%) and to provide means of identification in order that cardholders could be offered more incentive in using their credit cards.

(Table 35)

## CHAPTER V

### DISCUSSION & RECOMMENDATIONS

As the sample size of this survey is relatively small, the findings (and hence the recommendations) are to be viewed with the limitation in mind.

#### Banking Habits

It seems that banking institutions are quite successful in saving manual processing costs by getting their customers away from the bank counters, for simple transactions like the drawing of cash. (Seventy two percent of cardholders used ATMs at least once a month). However, because of the widespread installation of ATMs, cardholders usually draw the minimum amount (mainly between HK\$100 to HK\$500) they require and visit the ATMs again if more cash is subsequently needed.



On the other hand, if customers go to draw cash from the bank counters, they usually get more money (mainly between HK\$200 to HK\$2,000). That means, on the average the amount of cash a customer draws from the counter is four times what he will get from one visit to an ATM. Depending on the relative unit processing costs of individual banks, it may not be cost-saving at all but certainly ATMs help to alleviate the workload at the counter.

It was revealed that many customers still visited bank branches to perform very simple transactions like drawing of cash (38%), depositing money (30%) and updating passbooks (19%). These simple transactions may be replaced and automated easily by promoting the ATM services, by introducing automatic passbook updating terminal. In this manner, the bank staff can be employed to perform other more complicated or important tasks.

Currently some of the banks in Hong Kong are promoting the various services that can be provided by ATMs. Cash withdrawal function is already well-received but not the other functions like depository and transfer. Thus, for every deposit or transfer transaction performed at an ATM, the customer is automatically entered once to a lucky draw with very handsome prizes. Performing more ATM transactions means more chances to win these prizes. At the same time, the daily limit for transfer between accounts is raised substantially to make transfer easier.

### Payment Habits

Hong Kong is still very much a cash society because cash is accepted everywhere while other payment methods are not universally accepted. We do observe however, that as the ticket price increases, the tendency to use other methods increases. We also observe that the most important criterion for a consumer to choose a particular method of payment is 'convenience'. If we can sign up more retailers to accept credit card or EFTPOS as readily as cash, then user attitudes will likely change.

It seems that a lot of retailers also prefer to receive cash. They have not come to understand how credit card and EFTPOS can help them to reduce cash risk, increase sales turnover, improve cash flow and so on. More merchant education in this respect is required.

It is recommended that card companies should arrange regular seminars and trainings for their merchants. Through the seminars, merchants can get more up-to-date information on how card products may help their business. Training sessions are also important as the merchant cashiers must know exactly what to do when consumers make payment by cards. Otherwise, consumers may feel that payment by cards is inconvenient, troublesome or time-consuming.



The consumers' knowledge about EPS and their usage are still low. EPS may strengthen sales/promotion in different merchant categories to gain broader exposure and expand service network.

Actually the awareness level of EPS is quite high but when it comes to repeated usage, the percentage is not good enough. On the one hand, EPS should reinstate TV commercials so that the message can get access to more people in a short period of time. On the other, since EPS is quite successful in department stores and special projects like those with Mass Transit Railway, Jockey Club and the utility companies, thought should be given to holding joint promotion with these organizations to capitalize on the momentum generated.

#### Card Ownership/Preference

From the survey, the percentages of debit and credit cardholders are respectively 61 percent and 28 percent of the sample. Thus there is still a lot of potential in both markets.

The percentages of multiple cardholders (with more than one card) are 36 percent and 38 percent for credit card and debit card customers respectively. It is likely that existing cardholders will readily accept more cards making them good targets for further promotion.

Invitation to existing cardholders offering additional cards is one way to increase the card base. During special periods of the year like Valentine Day, Father's Day and Mother's Day, the kind of appeal that specify care, concern and protection to your beloved ones is quite effective.

Different characteristics can be seen from the profile of credit and debit cardholders. The former are mainly 'white collars', educated up to upper secondary (or above) and earning a monthly income of between HK\$3,000 to HK\$10,000 (or above).

The latter are usually 'blue collars', with education to upper secondary (or below) and earning from below HK\$3,000 to HK\$6,000 per month.

The above information may be useful for the design of future card promotion activities.

As a matter of fact, some card companies are already going after specific target groups of customers and offering special package to, say, university graduates who can obtain credit cards free of charge for a year or so. Bank representatives also call on factories giving out ATM cards either free or with some discount.



VISA cards have overtaken American Express to become the most popular credit card in Hong Kong. The two card types are occupying 62 percent and 18 percent of the sample respectively. Mastercards are in third place (14%) while Diners Club is way behind with just 3 percent of the sample.

VISA is popular among cardholders because it is 'common', 'widely accepted', and 'many functions'. However, VISA is always considered second to American Express (AE), status-wise. VISA should embark on promotional campaigns to enhance its image and turn around customer perception. Actually the application requirements for VISA and AE are very similar but AE is very successful in creating a superior image to their cardholders.

The American Express cardholders can quote far more reasons for choosing the card. AE members like their Global Assistance Program and the service provided by AE. They should capitalize on the customer loyalty and continue heavy advertising to reinforce the superior image and the exclusive membership privileges.

### Future Applications

Although the Smart/Chip card is already quite popular in Europe, very few people in Hong Kong have heard of this 'new' product. If it is introduced to Hong Kong, it may take quite a while to be adopted.

Changing to using the draft capture terminal and personal secret number will save a lot of processing costs for the credit card companies and enable the retailers to obtain reimbursements more quickly. However, this involves a change in the way a customer is accustomed to using his credit card. From the survey, the yes/no response to whether credit cardholders like to change to using a personal secret number from the usual requirement of a signature is just 50/50. Those who say 'no' have mentioned 'easy to forget number', 'lack confidence' and 'less secure' so it seems consumers are not ready to accept this adjustment and a lot of customer education is required to overcome these obstacles.

### Merchant Research

Most of the merchant outlets in Hong Kong accept credit card payment. For the minority who do not, their main concern is the cost of taking credit cards, which will erode their profit margin.



Usually the merchants will take several types of credit cards. They believe that by taking credit cards, there will be more business opportunity. The most popular ones are VISA, MasterCard, American Express and Diners Club. However, some of the merchants do not accept the last two types because of the significantly higher discount rate charged.

'Forged card' is the most serious operational problem credit card merchants are having. In fact, the whole credit card industry is alarmed by the rapid growth in the number and types of credit card fraud in recent years. The international card organizations and the local card companies are now collaborating and putting great efforts into fighting the problem. However, there is no sign that credit card fraud will disappear easily in the near future.

The other areas that merchants want to see improvements are the reimbursement procedures and authorization service. The former will improve cashflow while the latter can speed up service time and help to prevent occurrence of fraud.

It is also important, from the merchants' point of view, to provide incentives and convenience for consumers to use their credit cards during shopping. That is why the merchants suggest card companies to increase individual cardholder's credit limit and arrange periodic lucky draws and promotion.

Many merchants, be it credit card or non-credit card merchants, are very concerned with the cost of the operation. If the charges are lowered to an acceptable level, some merchants may be converted to take credit cards while other existing credit card merchants will be more committed and prepared to ask for payment by cards.

Because of the fierce competition in the credit card market, some banks or card companies had in the past lowered their discount rate in order to 'steal' more business from their competitors. The situation had at one point become so acute that many described it as cut-throat pricing.

Later on the card companies realized that they themselves could not survive under such cut-throat pricing and eventually a gentleman agreement was reached so that all the card companies promised NOT to lower the discount rate below a certain point, unless agreement to the contrary from all parties concerned were sought.



## CHAPTER VI

### CONCLUSION

Hong Kong is basically still very much a cash society. Both the consumers and the retailers are very comfortable with payment in cash. As Hong Kong is a small place and banking services are adequately provided, there are not too many problems in obtaining and depositing cash, like in other bigger countries.

However, the percentage of cardholders is showing a steady increase since the younger generation is more receptive to new ideas and card companies are promoting vigorously their products. Unlike in many places, card products are pushed by nearly every retail bank in Hong Kong, sometimes jointly, and all of them are convinced that the cost is justified. The usage of card products is also satisfactory. There is no usage wall<sup>1</sup> - the 33 percent

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1. Fjeld, Rawleigh, "Dispelling the Myths of POS". EFT Today, 1988.

wall stigma that says you cannot get more than a third of your card base to be active users of the card.

Thus, it seems that Hong Kong has already established a good foundation for card products and should develop the market further. Besides giving out gimmick items and holding lucky draws, card companies may also improve their cardholder services by considering some or all of the followings:

- regularly review the credit limit offered to cardholder to encourage growing spendings.
- provide emergency cash in case of need, especially when travelling abroad.
- provide efficient lost card replacement.
- embark on new card design to make the cards look even better.
- insure the goods purchased by using the cards so as to offer a sort of purchase protection.

To the merchants, the most important issues are business opportunity, cost and the problem of fraud. An earlier study<sup>2</sup> show that many retailers believe the card technology will decrease the amount of time customers spend paying for purchases, will attract new customers, and will increase the average amount spent on purchase.

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2. Kantrow, Yvette, "Resistance to EFTPOS is on the wane". American Banker, 1988.



Many merchants in Hong Kong agree that taking cards will increase their business turnover but they do not want to give away the two to four percent commission. These merchants either refuse to accept cards or just take those card types with relatively lower charges. After all the card companies in Hong Kong have set up a co-operative committee to discuss card business issues, it is very difficult to expect them to offer anything better than the lowest rate agreed by all the members to an average retailer.

In fact, card companies are testing new equipment and products in order to achieve improvement in service, and at the same time reduce the cost to merchants.

One thing being tested is the data capture terminal<sup>3</sup> which electronically record all the card transaction information and send to card companies for reconciliation and settlement. This device will save the merchants' time and resources to deposit credit card vouchers into their bankers because the process is now automated. The merchants will also receive the funds faster as the transaction amount will be credited to the merchants' account at the end of every business day.

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3. Mooradian, Sonja, "Electronic signatures developed to enhance security". Electronic Payment International, 1988.

Another product card companies are testing is called private label card which is in fact just another name for proprietary credit card. The difference is the whole system is electronically and automatically processed. It gives customer credit on purchase and is usually associated with a special discount offer. Private label card is attractive to merchants and bankers alike because it will enhance customer loyalty and cut down costs of card processing.

The Chip card or Smart card which is a type of plastic card embedded with a computer intergrated circuit board is already generating a lot of interest in the United States and Europe. The most important feature of chip card is that it can store a lot more information than ordinary magnetic stripe card. Since its capacity is much bigger, more detailed data can be stored making it virtually a portable computer, useful for different types of transactions. However, few people in Hong Kong have ever heard of chip card and even the card companies have not got the slightest inclination to test the chip card in Hong Kong in the near future.



## Appendix A

## Consumer Telephone Questionnaire

1. How many ATM/credit cards do you carry? (Circle one)

ATM cards                      (1)  
                                   ( )            a. None  
                                   ( )            b. 1  
                                   ( )            c. 2  
                                   ( )            d. 3  
                                   ( )            e. 4  
                                   ( )            f. 5 or more

Credit cards                    (2)  
                                   ( )            a. None  
                                   ( )            b. 1  
                                   ( )            c. 2  
                                   ( )            d. 3  
                                   ( )            e. 4  
                                   ( )            f. 5 or more

2. If you do not carry any ATM/credit cards, the reason(s) is/are

(3)  
 ( )            a. no need to carry the cards  
 ( )            b. prefer to use cash  
 ( )            c. afraid of over-spending  
 ( )            d. do not know how to use the cards  
 ( )            e. other, please specify \_\_\_\_\_

3. How much cash do you normally carry?

(4)  
 ( )            a. less than HK\$200  
 ( )            b. between HK\$200 to HK\$500  
 ( )            c. between HK\$500 to HK\$1000  
 ( )            d. between HK\$1000 to HK\$2000  
 ( )            e. more than HK\$2000  
 ( )            f. the amount varies

4. When shopping, how do you normally pay?

(5)  
 ( )            a. by cash  
 ( )            b. by credit card  
 ( )            c. by cheque  
 ( )            d. by EPS  
 ( )            e. other, please specify \_\_\_\_\_

5. In fact, what is your preferred method of payment?

(6)

( )

a. by cash

( )

b. by credit card

( )

c. by cheque

( )

d. by EPS

( )

e. other, please specify \_\_\_\_\_

6. Why do you prefer the method mentioned in Q.5?

(7)

( )

a. convenience

( )

b. safety

( )

c. status

( )

d. credit period

( )

e. other, please specify \_\_\_\_\_

7.1 For amounts less than HK\$100, how do you pay?

(8)

( )

a. by cash

( )

b. by credit card

( )

c. by cheque

( )

d. by EPS

( )

e. other, please specify \_\_\_\_\_

7.2 For amounts between HK\$100 and HK\$500, how do you pay?

(9)

( )

a. by cash

( )

b. by credit card

( )

c. by cheque

( )

d. by EPS

( )

e. other, please specify \_\_\_\_\_

7.3 For amounts between HK\$500 and HK\$1000, how do you pay?

(10)

( )

a. by cash

( )

b. by credit card

( )

c. by cheque

( )

d. by EPS

( )

e. other, please specify \_\_\_\_\_

7.4 For amounts over HK\$1000, how do you pay?

(11)

( )

a. by cash

( )

b. by credit card

( )

c. by cheque

( )

d. by EPS

( )

e. other, please specify \_\_\_\_\_



8. How often do you use the automated teller machines?

(12)

- ☐ a. daily
- ☐ b. once or twice a week
- ☐ c. once or twice a month
- ☐ d. never
- ☐ e. other, please specify \_\_\_\_\_

9. How much do you normally draw from Automated Teller Machines on an average day?

(13)

- ☐ a. HK\$100 to HK\$500
- ☐ b. HK\$500 to HK\$1000
- ☐ c. HK\$1000 to HK\$2000
- ☐ d. over HK\$2000
- ☐ e. other, \_\_\_\_\_

10. What do you think EPS stands for?

(14)

- ☐ a. a type of ATM card
- ☐ b. a HongKongBank Subsidiary
- ☐ c. a type of credit card
- ☐ d. a payment system
- ☐ e. other, please specify \_\_\_\_\_

11. Have you ever used EPS before?

(15)

- ☐ a. YES
- ☐ b. NO

12. If you have used EPS before, where do you normally use EPS?

(16)

- ☐ a. department store
- ☐ b. supermarket
- ☐ c. MTR
- ☐ d. Jockey Club
- ☐ e. other, please specify \_\_\_\_\_

13. Usually, how often do you go to visit your bank branch?

(17)

- ☐ a. less than once a month
- ☐ b. once or twice a month
- ☐ c. once or twice a week
- ☐ d. daily
- ☐ e. other, please specify \_\_\_\_\_

14. For what reason do you usually go to your bank?  
(Circle one or two)

(18)

- ( ) a. to draw cash  
( ) b. to update passbook  
( ) c. to arrange time deposits  
( ) d. to deposit money into the account(s)  
( ) e. other, please specify \_\_\_\_\_

15. If you get cash from the teller in the bank, how much do you normally get?

(19)

- ( ) a. less than HK\$100  
( ) b. between HK\$200 and HK\$500  
( ) c. between HK\$500 and HK\$1000  
( ) d. between HK\$1000 and HK\$2000  
( ) e. between HK\$2000 and HK\$3000  
( ) f. between HK\$3000 and HK\$4000  
( ) g. more than HK\$4000

16. What payment method do you find the merchants/shops usually prefer?

(20)

- ( ) a. cash  
( ) b. credit card  
( ) c. cheque  
( ) d. EPS  
( ) e. they do not care

17. What type(s) of credit card do you carry?

(21)

- ( ) a. VISA  
( ) b. Master Card  
( ) c. American Express  
( ) d. Diners  
( ) e. other, please specify \_\_\_\_\_

18. If you carry VISA or Master Card, the reasons you choose them are

(22) (Circle the one or two main reasons):

- ( ) a. company card, company policy  
( ) b. it was a gift  
( ) c. good customer services  
( ) d. good bank facilities  
( ) e. widely accepted  
( ) f. no entrance fee  
( ) g. just pay 5% of outstanding balance  
( ) h. many functions  
( ) i. other, please specify \_\_\_\_\_



19. If you carry American Express, the reasons are

(22) (Circle the one or two main reasons):

- ☐ a. company card, company policy
- ☐ b. it was a gift
- ☐ c. good customer services
- ☐ d. good bank facilities
- ☐ e. widely accepted
- ☐ f. associated insurance cover
- ☐ g. global assistance service
- ☐ h. long credit period
- ☐ i. many functions
- ☐ j. other, please specify \_\_\_\_\_

20. Have you heard of the 'Chip Card/Smart Card' before?

(24)

- ☐ a. YES
- ☐ b. NO

21. If you have heard of the term before, what do you believe a 'Chip Card/Smart Card' is?

(25)

- ☐ a. a type of credit card
- ☐ b. a type of ATM card
- ☐ c. a type of EPS card
- ☐ d. a type of cash card
- ☐ e. a type of multi-purpose card

22. Now, your signature is required when paying with a credit card. Suppose in future you must use a personal secret number instead (like with automated teller machines now), would you like this change?

(26)

- ☐ a. YES
- ☐ b. NO
- ☐ c. Don't know
- ☐ d. other, please specify \_\_\_\_\_

23. If the answer to Q.22 is 'NO', the reasons are

(27)

- ☐ a. it is a change in habit
- ☐ b. easy to forget the secret number
- ☐ c. just prefer to sign
- ☐ d. less secure
- ☐ e. other, please specify \_\_\_\_\_

Please answer the following questions about you.

24. Sex (28)

- ( ) a. male  
( ) b. female

25. Age (29)

- ( ) a. 20 - 24  
( ) b. 25 - 29  
( ) c. 30 - 34  
( ) d. 35 - 40

26. Occupation

(30)

- ( ) a. Professional/Manager/Employer  
( ) b. White Collar  
( ) c. Blue Collar  
( ) d. Housewife  
( ) e. Student  
( ) f. Retired/Unemployed

27. Highest education level attended:

(31)

- ( ) a. primary or below  
( ) b. lower secondary (F.1 - F.3)  
( ) c. higher secondary (F.4 - F.5)  
( ) d. matriculation  
( ) e. post secondary/polytechnic/nurse  
( ) f. university  
( ) g. graduate school

28. Monthly Personal Income

(32)

- ( ) a. Under \$3,000  
( ) b. \$ 3,000 - \$ 3,499  
( ) c. \$ 3,500 - \$ 3,999  
( ) d. \$ 4,000 - \$ 4,499  
( ) e. \$ 4,500 - \$ 4,999  
( ) f. \$ 5,000 - \$ 5,499  
( ) g. \$ 5,500 - \$ 5,999  
( ) h. \$ 6,000 - \$ 6,999  
( ) i. \$ 7,000 - \$ 7,999  
( ) j. \$ 8,000 - \$ 9,999  
( ) k. \$10,000 - \$11,999  
( ) l. \$12,000 - \$14,999  
( ) m. \$15,000 - \$19,999  
( ) n. \$20,000 - \$29,999  
( ) o. \$30,000 or above



## Appendix B

## Consumer Questionnaire Data

TABLE 1 \*

HOW MANY ATM/CREDIT CARDS DO YOU CARRY?

Total Response	530	530
	ATM card %	Credit card %
No	39	72
Yes	61	28
one card	62	63
two cards	31	29
three cards	6	4
four cards	1	1
five cards or more	0	2

\* Tables 1 - 28 correspond to questions 1 - 28 of the consumer telephone questionnaire.

TABLE 2

IF YOU DO NOT CARRY ANY ATM/CREDIT CARDS,  
THE REASON(S) IS/ARE

Total Response	197
	%
No need to carry the cards	50
Do not know how to use the cards	10
Prefer to use cash	8
Troublesome to apply	8
Do not want to use credit facility	7
Annual Fee	5
Others	13



TABLE 3

HOW MUCH CASH DO YOU NORMALLY CARRY?

Total Response	530
	%
Less than HK\$200	34
Between HK\$200 to HK\$500	45
Between HK\$500 to HK\$1,000	14
Between HK\$1,000 to HK\$2,000	4
More than HK\$2,000	1
The amount varies	2

TABLE 4

WHEN SHOPPING, HOW DO YOU NORMALLY PAY?

Total Response	530
	%
By Cash	91
By Credit Card	8
Others	1



TABLE 5

IN FACT, WHAT IS YOUR PREFERRED  
METHOD OF PAYMENTS?

Total Response	530
	%
By Cash	87
By Credit Card	12
Easy Pay System (EPS)	1
Credit period	1
Quick	1
Auto	1
Carry over cash	1
Do not possess any cars	1
Others	1

TABLE 6

WHY DO YOU PREFER THE METHOD MENTIONED  
IN QUESTION 5?

Total Response	561
	%
Convenience	61
Habit	6
With account statement/easy reconciliation	4
Credit period	3
Quick	3
Safe	2
Carry less cash	1
Do not possess any card	1
Others	19



TABLE 7

FOR DIFFERENT AMOUNTS, HOW DO YOU PAY?

Total Response		530			
	(%)	By Cash	By Credit Card	By Cheque	By EPS
Amounts less than HK\$100		99	1	0	0
Amounts between HK\$100 and HK\$500		86	11	1	3
Amounts between HK\$500 and HK\$1000		68	24	4	4
Amounts over HK\$1000		61	27	8	4

TABLE 8

HOW OFTEN DO YOU USE  
AUTOMATED TELLER MACHINES?

Total Response	359
	%
Daily	6
Once or twice a week	51
Once or twice a month	15
Never	7
It varies	5
Other	16



TABLE 9

HOW MUCH DO YOU NORMALLY DRAW FROM AUTOMATED  
TELLER MACHINES ON AN AVERAGE DAY?

Total Response	336
	%
Between HK\$100 to HK\$500	51
Between HK\$500 to HK\$1000	30
Between HK\$1000 to HK\$2000	10
Over HK\$2000	2
Other	6

TABLE 10

WHAT DO YOU THINK EPS STANDS FOR?

Total Response	530
	%
A payment system	33
Don't know	24
A type of ATM card	23
A type of credit card	6
Subsidiary of HongKongBank	1
Other	13





TABLE 12

IF YOU HAVE USED EPS BEFORE  
WHERE DO YOU NORMALLY USE EPS?

Total Response	134
	%
Department Store	41
Electrical Appliances	8
Mass Transit Railway	6
Petrol Station	6
Supermarket	5
Boutiques	5
Jewellery Shops	1
Other	27



TABLE 13

USUALLY, HOW OFTEN DO YOU GO TO  
VISIT YOUR BANK BRANCH?

Total Response	530
	%
Less than once a month	25
Once or twice a month	51
Once or twice a week	7
Every other day	1
Daily	3
Other	13
Other	

TABLE 14

FOR WHAT REASON DO YOU USUALLY  
GO TO YOUR BANK?

<hr/>	
Total Response	683
	<hr/>
	%
To draw cash	38
To deposit money into the account(s)	30
To update passbook	19
To arrange time deposit	1
Money Exchange	1
Seldom visit the bank	1
Other	10



TABLE 15

IF YOU GET CASH FROM THE TELLER IN THE BANK,  
HOW MUCH DO YOU NORMALLY GET?

Total Response	530
	%
Less than HK\$200	6
Between HK\$200 and HK\$500	18
Between HK\$500 and HK\$1000	16
Between HK\$1000 and HK\$2000	18
Between HK\$2000 and HK\$3000	9
Between HK\$3000 and HK\$4000	5
Over HK\$4000	10
Seldom visit the bank	15
Other	4

TABLE 16

WHAT PAYMENT METHOD DO YOU FIND THAT  
MERCHANTS/SHOPS USUALLY PREFER?

<hr/>	
Total Response	530
	<hr/>
	%
Cash	73
They do not care	15
Credit Card	2
Cheque	1
EPS	1
Don't know	1
Other	7



TABLE 17

WHAT TYPE(S) OF CREDIT CARD DO YOU CARRY?

Total Response	217
	%
VISA	62
American Express	18
MasterCard	14
Diners Club	3
Other	3
Good service	2
Good for express trips	1
Additional card	1
Established working relationship	1
Other	1

TABLE 18

IF YOU CARRY VISA OR MASTERCARD,  
THE REASONS YOU CHOOSE THEM ARE

Total Response	146
	%
Widely accepted	26
Many functions	14
Common	10
Just pay 5% of outstanding balance	5
Free gift	2
Good service	2
Good for overseas trips	1
Additional card	1
Established banking relationship	1
Other	36



TABLE 19

IF YOU CARRY AMERICAN EXPRESS,  
THE REASONS YOU CHOOSE IT ARE

Total Response	44
	%
Widely accepted	20
Many functions	11
Global Assistance	11
No spending limit	9
Long credit period	9
Good service	2
Common	2
Good for overseas trip	2
Company card	2
Other	30

TABLE 20

IF YOU HAVE YOU HEARD OF THE  
"CHIP CARD/SMART CARD" BEFORE?

Total Response	530
	%
Yes	13
No	83
Not sure	4
A type of ATM card	
Others	



TABLE 21

IF YOU HAVE HEARD OF THE TERM BEFORE,  
WHAT DO YOU BELIEVE A "CHIP CARD/SMART CARD" IS?

Total Response	69
	%
Not sure	46
A type of credit card	35
A type of multi-purpose card	4
A type of ATM card	3
Others	12

TABLE 22

NOW, YOUR SIGNATURE IS REQUIRED WHEN PAYING  
WITH A CREDIT CARD. SUPPOSE IN FUTURE YOU  
MUST USE A PERSONAL SECRET NUMBER INSTEAD  
(LIKE WITH AUTOMATED TELLER MACHINES NOW),  
WOULD YOU LIKE THIS CHANGE?

Total Response	150
	%
Yes	45
No	41
Don't know	9
Other	5

TABLE 23

IF YOUR ANSWER TO QUESTION 22 IS 'NO'  
(THAT IS, YOU DO NOT LIKE THE CHANGE TO  
USING PERSONAL SECRET NUMBER),  
THE REASONS ARE

Total Response	69
	%
Lack confidence in using number	33
It is easy to forget a number	23
A secret number is less secure	16
I prefer to sign	13
Other	15



TABLE 24  
PROFILE OF RESPONDENTS - SEX

<hr/>	
Total Response	530
<hr/>	
	%
Male	51
Female	49

1 2 3 4 5 6 7 8 9 10 11 12

TABLE 25

## PROFILE OF RESPONDENTS - AGE

Total Response	530
	%
15 - 19	6
20 - 24	26
25 - 29	21
30 - 34	21
35 - 39	12
40 - 44	8
45 or over	6

TABLE 26

## PROFILE OF RESPONDENTS - OCCUPATION

<hr/>	
Total Response	530
	<hr/>
	%
Professional/Managerial/Employer	10
White Collar	24
Blue Collar	32
Housewife	14
Student	10
Retired/Unemployed	2
Unclassified/Refusal	9



TABLE 27

PROFILE OF RESPONDENTS - EDUCATION

Total Response	530
	%
Primary or below	16
Lower secondary (F.1 - F.3)	23
Upper secondary (F.4 - F.5)	35
Matriculation	8
Post-secondary/University or above	18

TABLE 28

PROFILE OF RESPONDENTS - MONTHLY PERSONAL INCOME

Total Response	530
	%
Below HK\$3,000	5
HK\$3,000 - HK\$5,999	35
HK\$6,000 - HK\$9,999	17
HK\$10,000 or above	7
Refused to disclose	37

## APPENDIX C

## Merchant Telephone Questionnaire

1. Does your business accept credit cards? (1)
- |     |   |
|-----|---|
| YES | 1 |
| NO  | 2 |
2. If no, why not? (2)
- |                                 |   |
|---------------------------------|---|
| Commission rate is high         | 1 |
| Profit margin is small          | 2 |
| Prefer Cash/EPS/Cheque          | 3 |
| Unwilling to pay any commission | 4 |
| Other (please specify)          |   |
- 
3. If yes, which types of cards do you accept? (3)
- |                        |   |
|------------------------|---|
| VISA                   | 1 |
| Master Card            | 2 |
| American Express       | 3 |
| Diners                 | 4 |
| OTB                    | 5 |
| Federal Card           | 6 |
| Fortune Card           | 7 |
| JCB                    | 8 |
| JCG                    | 9 |
| Other (please specify) |   |
- 
4. If you accept some cards and not others:
- (A) Why do you accept the cards you accept? (4)
- |                        |   |
|------------------------|---|
| Most common/popular    | 1 |
| Lower commission rate  | 2 |
| Get more business      | 3 |
| It is necessary        | 4 |
| Other (please specify) |   |
- 
- (B) Why do you not accept other cards? (5)
- |                        |   |
|------------------------|---|
| Not popular            | 1 |
| High commission rate   | 2 |
| No need                | 3 |
| Not being approached   | 4 |
| Other (please specify) |   |
-



5. Would you encourage other merchants to accept credit cards?

	(6)
YES	1
NO	2

Why? \_\_\_\_\_

Why not? \_\_\_\_\_

6. What are the major problems you encounter accepting credit cards?

	(7)
Forged/counterfeit card	1
Checking the bad list	2
Checking the signature	3
Phone for authorisation code	4
Long wait for bank to credit funds	5
High commission rate	6
Other (please specify)	

7. What new services would you like the card companies to provide

(A) To you as a merchant?

	(8)
Prompt payment	1
Provide CAT terminal	2
Voucher pick-up service	3
Lower commission rate	4
Other (please specify)	

(B) To your customers?

	(9)
Higher/no credit limit	1
Some identification (eg card with photo)	2
Lucky draw/souvenir	3
Other (please specify)	

8. What is your line of business?

APPENDIX D

Merchant Questionnaire Data

TABLE 29 \*

DOES YOUR BUSINESS ACCEPT CREDIT CARDS?

Total Response	106
	%
Yes	74
No	26

\* Tables 29 - 36 correspond to questions 1 - 8 of the merchant telephone questionnaire.

TABLE 30

IF YOU DO NOT ACCEPT CREDIT CARDS, WHY NOT?

Total Response	57
	%
Unwilling to pay any commission	28
Commission rate is high	26
Profit margin is small	23
Prefer cash/EPs/cheque	16
Other	7



TABLE 31

IF YOU ACCEPT CREDIT CARDS,  
WHICH TYPES OF CARDS DO YOU ACCEPT?

Total Response	252
	%
VISA	31
MasterCard	31
American Express	15
Diners	9
OTB	4
Federal Card	4
Fortune Card	4
JCB	1

TABLE 32

IF YOU ACCEPT SOME CARDS AND NOT OTHERS:

(A) Why do you accept the cards you accept?

Total Response	138
	%
Most common/popular	44
Get more business	22
Lower commission rate	18
It is necessary	14
Other	1

(B) Why do you not accept other cards?

Total Response	101
	%
High commission rate	40
Not popular	32
No need	19
Not being approached	8
Other	2

TABLE 33

WOULD YOU ENCOURAGE OTHER MERCHANTS  
TO ACCEPT CREDIT CARD?

Total Response	106
	%
Yes	53
No	47
Long wait for bank to credit funds	14
Checking the bad list	11
Phone for authorization code	11
Checking the signature	9
Other	9



TABLE 34

WHAT ARE THE MAJOR PROBLEMS YOU ENCOUNTER  
ACCEPTING CREDIT CARDS?

Total Response	162
	%
Forged/counterfeit card	30
High commission rate	17
Long wait for bank to credit funds	14
Checking the bad list	13
Phone for authorisation code	13
Checking the signature	9
Other	4

TABLE 35

WHAT NEW SERVICES WOULD YOU LIKE  
THE CARD COMPANIES TO PROVIDE

(A) To you as a merchant?

Total Response	160
	%
Lower commission rate	34
Prompt payment	26
Provide CAT terminal	19
Voucher pick-up service	15
Other	6

(B) To your customers?

Total Response	106
	%
Higher/no credit limit	30
Lucky draw/souvenir	29
Some identification (eg card with photo)	17
No comment	14
Other	9

TABLE 36  
WHAT IS YOUR LINE OF BUSINESS

Total Response	106
	%
Goldsmith/Jewellery Shop	15
Boutique	15
Computer/related equipment	11
Beauty Centre/Saloon	8
Electrical Appliances	6
Leather Goods	6
Electronic/Electrical	6
Sportswear	5
Book Store	4
Video Rental	4
Furniture	4
Watch	3
Photo Supply	2
Food	2
Travel	2
Other	7



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